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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, AUGUST 15, 2002

APPLICATION OF

THE POTOMAC EDISON COMPANY
D/B/A ALLEGHENY POWER

CASE NO. PUE-2002-00322

To revise its cogeneration
tariff pursuant to PURPA
§ 210

ORDER ESTABLISHING PROCEEDING AND INVITING COMMENTS
AND REQUESTS FOR HEARING

On June 12, 2002, the Potomac Edison Company d/b/a Allegheny Power (“AP” or “Company”), filed with the State Corporation Commission (“Commission”), an application, written testimony and exhibits to support its proposal for the year 2002 to change its cogeneration and small power production rates under its Schedule CO-G. The Company proposes to revise its Schedule CO-G to replace its administratively-determined avoided cost pricing methodology with a market-based pricing methodology for determining the Company’s payments to qualifying generating facilities for electricity purchased under the Public Utility Regulatory Policies Act of 1978 (“PURPA”). The Company requests that the new cogeneration rate tariff be effective with October, 2002, cycle bills rendered on and after October 7, 2002. The Company further proposes to revise and update its cogeneration rates annually hereafter based on current projections of forward energy prices.

In support of its proposed rate schedule, AP states in its application that there have been significant changes in Virginia’s energy markets since the Commission last reviewed the

Company's cogeneration rates. The Company refers, for example, to the passage of the Virginia Electric Utility Restructuring Act by the General Assembly in 1999. The Company also points to the Commission's approval of the Company's plan for functional separation whereby AP transferred ownership of all of its electric generating facilities to an affiliate, Allegheny Energy Supply, LLC. The Company indicates that it no longer owns generating facilities but purchases electric generation supply under contract to meet its default service obligations. The Company further states that it has no plans to build or purchase new generation in the future. Furthermore, according to AP, in the Company's functional separation case, AP and the Staff agreed that the Company's current co-generation schedule would continue in effect through the end of 2001, and after January 1, 2002, after consultation with the Commission Staff, the Company could file to modify its Schedule CO-G.

NOW THE COMMISSION, having considered the application, is of the opinion that the application should be docketed and that a procedural schedule should be established allowing interested parties an opportunity to file comments and/or request a hearing on the Company's application. We also grant, on an interim basis, until we decide this case, the Company's request that its proposed cogeneration tariff be effective with its bills rendered on and after October 7, 2002.

Accordingly, IT IS ORDERED THAT:

- (1) This matter is docketed and assigned Case No. PUE-2002-00322.
- (2) The Company's proposed cogeneration tariff shall be effective, on an interim basis, with Company bills rendered on and after October 7, 2002, and until the date the Commission issues its order deciding this case.

(3) Pursuant to 5 VAC 5-20-120 of the Commission's Rules of Practice and Procedure, a hearing examiner is appointed to conduct all further proceedings in this matter.

(4) AP shall forthwith provide copies of this Order and its application and testimony to any existing cogenerator in its service territory and any small power production or cogeneration developer who has contacted the Company within the last year.

(5) Any member of the public may obtain a copy of AP's application and testimony by contacting counsel for the Company, Philip J. Bray, Esquire, Allegheny Power, 10435 Downsville Pike, Hagerstown, Maryland 21740-1766.

(6) On or before September 17, 2002, any interested person wishing to comment or request a hearing on AP's application, shall file an original and fifteen (15) copies of the comments and/or request for hearing, with the Clerk of the Commission, Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, and shall refer to Case No. PUE-2002-00322. A copy of such comments and/or requests for hearing shall simultaneously be sent to counsel to AP: Philip J. Bray, Esquire, Allegheny Power, 10435 Downsville Pike, Hagerstown, Maryland 21740-1766. Any request for hearing shall detail reasons why such issues cannot be adequately addressed in written comments. If no sufficient request for hearing is received, a formal hearing with oral testimony may not be held, and the Commission may make its decision based upon papers filed in this proceeding.

(7) The Commission's Staff shall investigate the reasonableness of AP's application and shall file an original and fifteen (15) copies of its report or testimony with the Clerk of the Commission, on or before October 18, 2002, sending a copy to the Company and each Respondent.

(8) On or before October 31, 2002, the Company shall file with the Clerk of the Commission an original and fifteen (15) copies of any response to comments filed and the Staff report. The Company shall serve a copy of its response upon Staff and all parties of record.

(9) On or before September 24, 2002, the Company shall file with the Clerk of the Commission proof of service as required in this Order.